

## FINANCIAL FOCUS

Robert Smith suggests the stock market could make a comeback when Congress adjourns this summer. **Page 5**



# Economy has become a sort of 'Twilight Zone'

But as Congress takes a break, stock market may recover

It's a surreal sort of place, where it is neither darkness nor light, daytime nor night. Rod Serling might appreciate this couplet, but investors certainly don't when it best describes the economy.

The economy remains on life support ... government life support. Witness the most recent \$26 billion giveaway package to the teachers' unions. Temporary fixes are now becoming permanent policy because they are not creating jobs in the private sector to the degree desired. We're almost three years into the economic slowdown, and the government is still picking the winners and losers, determining who is employed and who is not.

Like it or not, investors may have to get used to life inside the "Twilight Zone." Economists Kenneth Rogoff and Carmen Reinhart have found that it takes a long time for economies to recover from major financial crises. It took a decade for America to recover from the Great Depression. It has been two decades since Japan's real estate bubble burst, and its economy is still in the doldrums.

If history repeats itself, why should 21st century America be any different? The human condition does not change; it simply changes places. Furthermore, economic upheaval may be



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accompanied by political upheaval as voters lurch from one failed prophet to another.

If America is at the beginning of its own "lost decade," the best we can hope for is that Congress adjourns and the stock market rallies. As mentioned earlier, when government is not meddling with industry, markets tend to react positively. And as Congress heads home on summer break, it is going to get an earful from constituents about what needs to be done. There is still a possibility that this will translate into an extension of current income tax rates in October, which would produce a nice market rally and forestall a lot of tax

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